

# Tesco: Losing Ground in the UK Case Analysis

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## Abstract

This paper is an analysis of the case study “TESCO– LOSING GROUND IN THE UK?” written by Perepu (2013). The analysis is about why, Tesco, after dominating the UK retailing for about 25 years, is losing market share? Although the UK and global economic recession created a negative impact on the retail industry, Tesco’s competitors are doing well in relative terms. To reverse the situation, the newly appointed CEO, Philip Clarke, came up with a turnaround strategy. However, Tesco is still fighting against the problem. Hence, many shareholders and commentators are worried about its future. To understand the situation, the case examined the background of the UK retail industry. Specifically, the study analyzed the structure and competition landscape of the sector and the changes in customer characteristics and behavior. The study then analyzed the strategy of Tesco in general and the turnaround strategies in particular in order to identify the strengths and weaknesses of Tesco. As a result, the study came up with the conclusion that the turnaround strategy of the organization has failed. The analysis further explored Tesco’s rival Sainsbury’s strategic responses on how Sainsbury managed the changing dynamics. In addition, the study reviewed how successful turnaround strategies have effectively been managed. Capitalizing on these lessons, the report recommended that rather than perusing reactive strategies, first, Tesco should admit that there is a problem of strategic concern. Then the organization should reconnect with its customers to identify the root causes and devise strategic priorities. Finally, Tesco should reengineer its structure, systems and HRM accordingly.

**Keywords:** UK retail industry, Turnaround strategies, International retailing, Case analysis

## 1. Problem Statement

Tesco, the largest retailer in the UK and third in the world was identified as a symbol of success by authors like Marr (2009). However, its performance started to decrease in its UK operations in 2000s. The reason for this phenomenon has been attributed to the recession problem that started in 2008. This is due to the fact that the negative impact of the recession drained the income of shoppers. Hence, they started to shift to other retailers that provide better deals. Consequently, customers preferred Tesco’s competitors in terms of the quality, shopping experience, customer service, and better price (Perepu, 2013).

The reasons for such problem as identified by many analysts are underinvestment and lack of emphasis in Tesco’s UK market operations as the organization focus on its international operations. This creates a reduction in the staff and operational and marketing problems in its local operations. Consequently, it started to experience a decline in market share.

In order to change the situation, Philip Clark come up with a strategy incorporating six elements of: restoration of stores, increasing and training its staff, improving its dot com channel, enhancing the value and range of its offerings, and best price offers (PLC, 2012, p. 4). Despite of the strategic response of the organization sales volume moved downwards. For example, according to Bryan Roberts “Ongoing flaccidity in Tesco's like-for-like sales occurs against the backdrop of significant investments being ploughed into store remodels, multichannel and revamped private label lines” (Kantar, 2013). Based on this observation, it becomes a concern as to whether the turnaround plan is going to reinstate the company in its past position in the UK or not? In other words, such strategic framework to address the challenges of the organization although logical taking into account the identified problems of Tesco they were not in a position to resolve the problem. In this connection, the chairman John Allan stated that “The challenges Tesco faces remain significant and fixing them will take time. However, I firmly believe we have the right team and the right strategy to deliver the longer-term performance our shareholders expect and deserve” (TESCO, 2015). This implies that even now (after four years of the turnaround strategy) the organization is not able to reverse the situation. Hence, to understand the real challenges of the organization, it is wise to look at the opportunities and challenges by looking at the UK retail industry and the internal strengths and challenges of the organization.

## 2. Analysis

### 2.1. Background of the UK retailing sector

In UK the retail industry plays a significant role as it contributed about 11% of the economy’s output (Rhodes, 2015). The same author contended that, the sector was significantly affected and felt the negative impact of the economic recession than the whole economy. Consequently, “retail sales fall and stagnate and many businesses

close shops or shut down totally (Burt, Sparks, & Teller, 2010, p. 10). This is explained by Events (2012) as follows: "There is no doubt that with consumers suddenly changing their spending in 2008; retailing has had to face up to a new reality" (p. 4). However, rather than revising their strategies to effectively respond to the new reality many retailers suffered with the recession.

Nevertheless, following the recovery the growth in the retail sector surpassed the growth in the overall economy by 2.5% recording average growth of 5% in each quarter in 2014 as compared to the first quarter of 2013 (Rhodes, 2015). Despite of the recovery retailers like Tesco are still facing the hangover of the recession.

Looking at the structure of the UK retail industry, the market is dominated by few oligopolies. In this regard as pointed out by Burt, Sparks, and Teller, (2010). "In the last ten years every third pound is generated by one of the five most powerful players in the market, i.e. Tesco, Sainsbury, Asda, Morrison and Marks and Spencer" (p. 4). In 2013 the concentration level intensified as the big four accounted 75% of the retail sales (Grocerynews, 2014).

Despite of the highly concentrated nature of the market, UK customers have high bargaining power as their shopping experience is not limited by a single retailer rather they shop from different retailers and are ready to purchase from small retailers that do not have labeled products. This characteristic of the UK is expected to be intensified further in the future. The customers are even forecasted to be more demanding and sophisticated. Specifically, with an increasing premium on convenience consumption, experience consumption and market segmentation that reflect the social class and the self-identity of individuals and groups, the place of marketing will be enhanced as people are expected to be conscious of brands and labels (Rhodes, 2015).

Concerning the competition characteristics, Burt, Sparks, and Teller (2010) illustrated that "the nature of competition in the UK market has taken a particular form, with a strong emphasis on non-price based competition, and control and replication of a branded retail offer" (p. 14). However, the advancement in E-commerce has intensified the level of competition. This is due to the fact that the entry barrier has declined as it becomes simple for the establishment of new online retailers. This has also heightened the competition landscape by intensifying the challenges of global competition for local retailers (skills, 2013).

Looking at the future of retailing, the report by RBS (2013, p. 5) concluded that: Growth will remain modest as consumer spending begins to recover; Online will account for up to half of retailers' businesses in the next five years alone; Technology will continue to be key with in store technology becoming a useful, integrated selling tool rather than a novelty gimmick; Consumers will continue to become all powerful, retailers must respond to that; and Clever retailers will maintain a relevance for their stores that will keep customers coming back for more. In the same way skills (2013) contended that the popularity and importance of electronic and mobile commerce has been enhanced as new channels that result in significant development in home delivery that minimize the physical movement of customers.

Specifically, looking at the changing features of the UK retailing the first change is associated with technology. In this regard, Events, (2012) maintained that "Consumers in the UK have taken to the digital age in a major way and to the extent that online and mobile commerce are accounting for a significant proportion of overall retail sales and growing fast" (p. 4). Similarly, according to Rhodes (2015) since at least 2007, the UK online sales has been sound despite of the seasonal variation with peaks in retail sales each year in months leading up to Christmas. Looking at the share of internet sales in the retail business it jumped to 12.8% in 2014 as compared to its small share of 2.7% in 2007. This implies that online sales is growing more than the past projections however it is still the smaller percentage of the total retailing despite its predicted increase in the future.

The second change is associated with the lifestyle, demographics and shopping patterns. In this regard the lifestyles of people are changing with increase in working hours and part time workers in the labor force. The other change is that the UK is experiencing an ongoing demographic shift towards an older population (skills, 2013). On top of that, "the growth of out of town shopping centers, retail parks and individual hypermarkets has had a further transformational effect on shopping patterns" (skills, 2013, p. 8). To be successful retailer there is a need to respond quickly to the changing dynamics of wants and needs of consumers.

Taking into account the future dynamisms in the retail industry and its consumers RBS (2013) argued that although there are signs of recovery, retailers will face high level of competition to attract entrenched customer behavior. Hence the future success depends on continual revision of strategies and business models. Regarding, technology and internationalization it needs appropriate strategies do register sound return on investment to capitalize on the sales growth opportunities that they create.

## 2.2. Strategic analysis of Tesco

Tesco is the third largest supermarket in the world and the leading in the UK. Beyond its local dominance in the UK, it was also successful to expand its stores in different parts of the world. However, its US operation was not successful and was sold as it failed to create sound return on investment (Vasquez-Nicholson, 2013).

The same author holds that, Tesco's dominance in the UK for over 25 years was due to its innovative marketing (like, the loyalty card) and channel mix (like, the on line shopping). On top of that, it was also known

for its operational efficiency (Zhao, 2014). However, “Tesco’s progress in the UK in the last five years has been noteworthy” (Vasquez-Nicholson, 2013). To address the problem it is better to look at the following strategic moves of the company both before and after the recession.

Regarding internationalization strategy Tesco tried to capitalize on global opportunities for growth realizing that the domestic market in UK is mature. Hence, in its process Tesco has to work for internationalization both to benefit from its good position in EU integration to single market and they should also capitalize on the emerging market opportunities (skills, 2013). In doing so RBS, (2013) recommended that “Retailers need to ensure their house is in order to prepare for growth” (p. 9). However, in Tesco’s case the reverse was the observed reality as it lost its place in UK at the expense of international expansion. This implies that “The big worry for Tesco is its worldwide expansion plan, from America to Thailand and China” (Theweek, 2012). This is due to the fact that the source of money for the international expansion is the UK segment of Tesco and it is in trouble.

In addition to the problem above, according to the conclusion of Zhao, (2014) “Tesco is constantly expanding its international markets, but its operating strategy may not suitable for every new markets and its supply chain system is not well developed in some overseas market” (p. 187). This emanates from applying the domestic strategies developed based on UK context in its overseas operations. This is exemplified as follows: “In 2007, Tesco opened stores in the United States under the name Fresh & Easy, however having opened 182 stores across California, Arizona and Nevada the chain failed to make money and was sold in April 2013” (Vasquez-Nicholson, 2013, p. 2). This is largely due to the preference of American on branded goods rather than private brands that Tesco is known for. This implies that the future challenge of Tesco is how to adapt its operational excellence locally in its international presence (Zhao, 2014).

In line with technology and multichannel mix strategy, according to PwC (2012) the second capability of retailers’ success is the capacity to capitalize on the opportunities in technological innovations: for business growth, good understanding of customers needs and requirements, and enhanced models that increase customer services. Similarly, these will allow retailers to implement successful multi-domestic strategies in their international expansion. Specifically, “With ever faster broadband connections such as 4G already a reality, mobile tablet devices will play an increasingly pivotal role in retail with Verdict Consulting predicting that by 2023 more sales will be made via mobile than via desktop PCs” (RBS, 2013, p. 4). Hence, retailers should adopt new channels in order to be competitive.

Cognizant of the UK customers’ interest in online shopping by avoiding weekly trip to supermarkets, Tesco decided to further invest in its online operations by establishing online-only stores. For example, “It planned to cut back on physical store openings to focus on online channels, where sales are expected to grow in the next five years” (Canada, 2014, p. 3). This move gives good position for Tesco in enhancing its operational efficiency. In other words, according to Vasquez-Nicholson (2013, p. 3) “Tesco’s multi-format stores bolster success” (p. 3). However, Tesco might not be in a position to integrate their superior operational efficiency and customer service and employment models. Beyond that, Tesco decided to stop investing in opening large supermarkets and superstores as they think that the advancement in the internet technology is going to make the relevance of large stores for non food items is going to decline. Likewise, Tesco should think of how to integrate the online and physical channels. This is especially important concern, as Tesco is successful in the online and convenience retailing (the food groceries) how can it develop its productivity in the non food retailing is one part of its turnaround strategy.

As the future of retailing is to be dominated by multichannel retailing, retailers should devise appropriate strategies by taking in to account the advantages, motivations and challenges of multichannel retailing strategy. In this regard, according to Zhang, et al. (2010) “Retailers face four major challenges in crafting successful multichannel strategies: 1) organizational structure; 2) data integration; 3) consumer analytics; and 4) evaluation and performance metrics” (p. 10). From this perspective Tesco’s strategic plan mentions nothing. This is going to have its impact on the success of the new strategy in effectively solving the challenges that the organization is facing.

Writing on multichannel retail mix decision: harmonization vs homogenization (Zhang, et al., 2010) said that “There are very few retailers that would be classified at either end of this continuum. In effect, the same author recommended that rather than standing in either ends of the continuum retailers “have to determine the extent of harmonization for each retail mix instrument across channels” (p. 18). Along the same line, Tesco should make strategic decisions on how to integrate the different channels. More specifically, it should devise a mechanism on how its non food retailing be integrated with the online operations.

Tesco seems to highly depend on technology to enhance its operational efficiency; however technology cannot substitute human capability. This is shown in its turnaround strategy on HRM that involves increasing the staffing level and providing training. Beyond these reactive measures the organization should think of researching the challenges of the staff and their satisfaction and motivation level and think of intervention mechanisms in order to address the real challenges. This is because the effectiveness of any strategy depends on the attitude, skills and motivation of the people who are very crucial in its implementation (Galbraith, 2002).

The other area of the strategic plan is revamping the stores. In this regard the organizations decision to enhance the look and feel of the stores is a nice measure in enhancing the shopping experience of the customers is appropriate. In this regard, Philip Dorgan as (cited in Kumar, 2012) warned that “The changes [implemented so far] seem to have worked well, although this is obviously a first impression and success will depend upon meticulous execution throughout each of the stores” . Beyond this Tesco should listen its target customers and understand their needs and requirements to further enhance their shopping experience.

Concerning operations strategy Zhao (2014) recommended as follows: Even though Tesco’s operations management is excellent, there are still several opportunities for keeping sustainable development and making further improvement. In general, Tesco should always maintain innovation to provide itself competitive advantages through adding more value in its goods. In detail, Tesco can continue to invest in technology like the company introduces RFID system as well and let technology become a new order-winner over other competitors. Nevertheless, Tesco should realize that there are weaknesses of high-technology. Therefore, the company cannot be totally be controlled by technology and ignore the human capabilities.

Concerning its Pricing value strategy, to be successful in the future, PwC, (2012, ) pointed out that “success will likely be shaped by several factors, weaved together in a flexible, scalable, and agile model. The winning retailers will have a superior understanding of their consumer, considering income and demographic fragmentation, as well as behaviors, and will have the inert ability to analyze shopper data and extract valuable information” (p. 42). The organization introduced a mix of discounts to reduce the price of the products and improved the quality and range of the products. By doing that the expectation was to gain high level of growth. However, rather than simply following price cut to address the problem of its customers related to the recession and before deciding on the quality and range of products Tesco should have changed its customer centric approached and understand the customer’s aspirations. Hence, program did not work as the customers are not basing their decision only on price considerations rater there are other factors that the retailer failed to address.

According to, Vasquez-Nicholson, (2013) “Tesco has positioned itself to lower prices and a competitive agenda (p. 3). In this regard the same writer said that “Tesco has received considerable criticism in the press for reportedly placing pressure on suppliers to achieve its price agenda” (p. 3). However, Tesco could not withstand the competition from both discounters and luxury brand retailers. This implies that Tesco should be clear on who should be its target customers and how it should be positioned in the market.

Coming to its promotion strategy, the company changed its agency to a new one (W+K) to integrate the Tesco brand to the minds and hearts of the people rater than simply broadcast. Though this is a nice move first Tesco should decide how it would like to be positioned in the mind of the customers and align its promotional strategies accordingly. In this connection Neil Saunders (as cited in Wood, 2012) contended that “consumers were willing to trade up and sought quality and value rather than just low prices. Tesco's marketing and promotion was not positioned to take best advantage of this”. In other words rather than investing a lot in advertisements for all public it should target its efforts in a way that can differentiate what type of lesson should be told to which category of customers.

On top of the promotional strategy, when we look at the customer relationship strategy, both Tesco and its rival Sainsbury introduced club card as customer retention strategies but is inappropriate strategy? In this regard Mollah (2014) concluded that “Retailer should not tie themselves on loyalty scheme because it is clear that all the major supermarket now offer same form of loyalty scheme and all the loyalty scheme almost same, it does not make any differentiation. So retailer should offer loyalty scheme to customer using different strategy” (p. 51). In other words, Martin Newman, CEO of Practicology (as cited in retailthinktank, 2015, p. 2) said: “customer loyalty demands more than a points based rewards system. Customers want to be treated like individuals”. Finally, Mollah, (2014) recommended that “Tesco needs to leverage its data with a program of rewards and personalized offers aligned with customers’ lifestyles and lifecycles” ( p. 51).

In line with its online strategy, Tesco upgraded its website by simplifying its use and its capacity to show quality goods and range of products. Beyond this the organization should think of how it can enhance the integration of its multichannel retailing.

By applying these strategies, Tesco is not in a position to reverse the situation. Among others the turnover plan was criticized by some as follows: according to Wood (2012) “The business has not had its eye on the ball, both in the latter stages of the Leahy reign and in the Clarke era too”. However, the same writer showed the contradictory claims of Clark who in one land admitted the existence of “long standing business issues” for which Leahy is going to take the blame on the other hand; he concluded that “There is no poison chalice”.

The other criticism is that, there is lack of core priorities in addressing the strategic disturbances that the organization is in. In other words, rather than responding reactively to all problems reactively, the organization should pause and think about what are the strategic challenges that create the problem in the first place and what type of strategic response should be emphasized. In this regard, Tesco should first decide on what generic strategy to pursue rather than to compete in both cost leadership and differentiation strategies. Specifically rather than trying to appeal both low income and wealthy customers through price cuts it should devise different approaches



for different social groups.

The third criticism is that the budget allocated for the turnaround strategy is small. Beyond that, Clark's plan to cut down on store opening is criticized as the company had spent a lot of time and resources in planning the stores (Perepu, 2013). The other area is that, 12 months is very short to implement such a turnaround. It would especially be very difficult in the non-food business to change the dedicated space in non-food business away with in this short period of time. It was even criticized for dedicating on online business at the cost of hypermarkets. This is because, Tesco's performance in online was not very good and it was growing lower than the market in the online non-food market.

Looking its four consecutive falling in UK sales, and its like for like sales by 1.5 analysis wonder whether the organization is going to make its revival. On the other hand, some analysis are of the view that it is too early to draw a conclusion and Tesco was not in distress, as it is continuing its lead in the market and its margin is higher compared to other retailers (Perepu, 2013).

### **2.3. Analysis of the business strategy of Sainsbury to beat the recession**

According to the 2008 annual report of Sainsbury business condition become harder starting in the second half of the 2007. The retail industry becomes more competitive. Despite of the extreme competition in the industry, Sainsbury performed well. This is attributed to the long standing values of high quality and greater value for customers.

By the time of the recession phenomena Sainsbury was changing its recovery plan achieved in 2007 in to a growth plan. This plan was a shift from recovery to growth. The 'Recovery to Growth' plan spans from March 2007 to March 2010 and has five areas of focus: 1) Great food, 2) Compelling general merchandise and clothing, 3) Complementary channels of distribution and services, 4) Developing new business, and 5) Growing space and creating property value.

According to the 2009 annual report of the organization "These areas are underpinned by Sainsbury's strong heritage and brand which consistently sets it apart from major competitors. A passion for healthy, safe, fresh and tasty food, the Company's values, innovation and strong ethical approach to business are what customers want and expect from Sainsbury's. Despite current economic conditions these values remain important for customers who give Sainsbury's most credit among the four major supermarkets for addressing the issues of most concern to them". On the contrary, it is only in 2012 Tesco established Board Corporate responsibility Committee (PLC, 2012). This implies that the company was not giving focus to corporate responsibility issues which are topical and customers are concerned about.

Unlike the Tesco's strategy of reducing price in helping customers in the difficult time of recession, Sainsbury have discovered the new customer behavior and developed its strategy accordingly. In this regard the organization's Brand Director, Judith Batchelar, maintained that "We already know that in these difficult economic times, family budgets are under pressure, and that people are working harder to make their money go further. Yet we've seen that having to think more carefully and thoughtfully about household spending, especially on food, has triggered a set of new, positive shopping behaviors across all socio-economic groups and population demographics" (Batchelar, 2012, p. 2).

In this regard the organizations success has been described by LLC (2014) as follows "Sainsbury's success with their "Taste the Difference" range indicates the potential for supermarkets to succeed if they get the quality vs. price equation right. The economics of successful offers indicate that private label is no longer equivalent to higher retailer margin compared to branded goods, but may be an essential component of a strategy to retain consumers that seek a better price-to-quality balance"

More specifically during the recession, Sainsbury changed its marketing strategy in such a way that it will target both low income consumers and premium buyers. Specifically, it conducted "Switch and save" campaign targeting low income customers to buy its low priced own label brands. To target the premium buyers in the intensified recession phenomena by changing its advertizing Message of "Test the Difference" to "Feed Your Family For a Fiver" and "Love your Leftovers". In addition the retailer increased its budget for sales promotion. It also introduced a brand match campaign by comparing the price of its branded goods purchased with its rivals of Tesco and Asda and customers where compensated if its price is higher than its rivals for the difference next time they visit the store (Services marketing in a recession: The Tale of five supermarkets, n. d., p. 2).

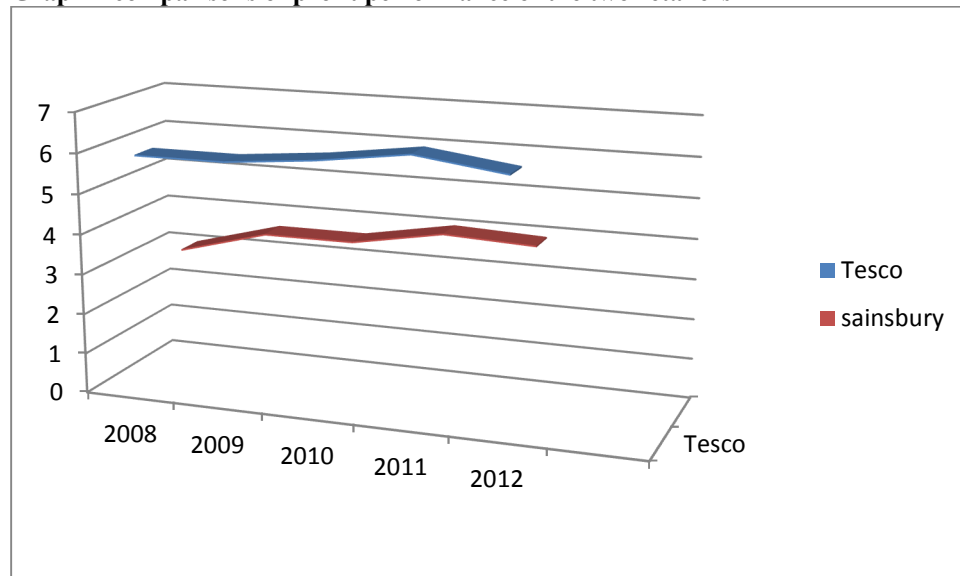
By applying these strategies Sainsbury was in better condition as compared to Tesco in addressing the recession. This can be better illustrated by comparing the performances of the two retailers as follows:

#### **a) Financial performance**

Although, both retailers registered an increments in sales regardless of the recession and the recovery (Exhibit 1) a look at graph 1 below show that although the profit margin of Tesco is greater than Sainsbury in general terms, looking at the situation during the recession it is clear that Tesco's margin declined sharply while its rival's margin was increasing. At the time of the recovery starting from 2011 Tesco's margin increased sharply while Sainsbury's margin shows similar level of profit margin. This could imply that the recession phenomena greatly impacted

Tesco as it was not in a position to attract the price conscious customers. This indicates a good performance by Sainsbury to appeal to all categories of customers. In other words, in the case of Sainsbury it showed a consistent rate after the 2009 recovery. This implies that Sainsbury was in a better position to attract to customers at low income level and to those that are premium consumers.

**Graph 1 comparisons of profit performance of the two retailers**

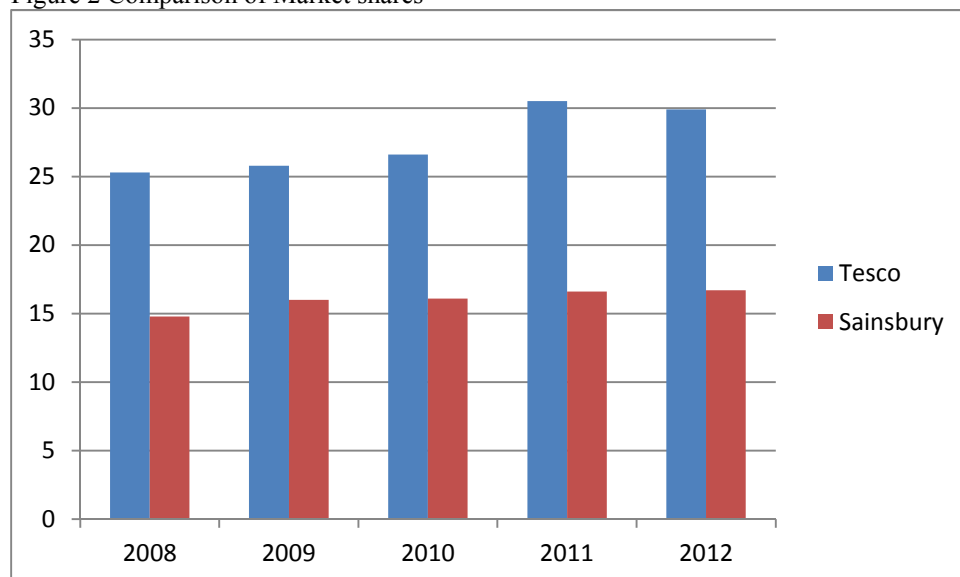


Source: Perepu (2013) and annual reports of TESCO and J-Sainsbury (2008-2012)

#### b) Market Share

The following graph developed based on annual reports of the two retailers and (Perepu, 2013) show the comparison in their market share. Looking at the graph below the market share of the two firms was increasing at a decreasing rate till the recovery, Tesco's share started to decline in 2011 and it is still straggling to reverse the situation. This does not happen even today. This implies that while rivals like Sainsbury and both discounters and premium retailers are doing well Tesco is not. In this regard, "Retail experts say the figures suggest Tesco may be fighting the wrong battle - pre-empting an assault on its market position by cheaper chains rather than focusing on protecting its customer base from the likes of Asda and Morrisons" (Dailymail, 2008). This is a clear indication for Tesco to investigate what is wrong internally and what lesson can it get from its rivals.

**Figure 2 Comparison of Market shares**



Source: Perepu (2013) and annual reports of TESCO and J-Sainsbury (2008-2012)

#### c) Operational efficiency

In order to look at the operational efficiencies of the two retailers we can look at its employees' productivity and asset management efficiency by considering the revenue per employee and weekly sales per square foot ratios respectively. In terms of revenue per employee Sainsbury is in better position for all the years (2008-2012). This

could indicate that, the level of productivity of Tesco's employees' is lower than its rival (see Exhibit 1 for detail). On the other hand, the weekly sales per square foot comparison show a better operational performance by Tesco. However, there are signs of decline in this ratio. This implies that there is a need for concerted effort by Tesco on how to improve its operational efficiency, despite of the fact that, the same trend is also observed by its rivals starting from 2010 (Exhibit 1).

### 3. Conclusions

The UK retail market is mature and the customers are very influential and sophisticated and have high bargaining power. They have low switching costs. This leads to the increased demand for convenience, experience consumption and market differentiation. The market is competitive and will continue to be like that with the advent of e-commerce and online-retailing. The market is known for its responsiveness to the changing needs of customers. On top of that the shopping pattern is transforming with the growth of town shopping centers, retail parks and individual hypermarkets. In addition to this the life style and demographic characteristics of the consumers is changing.

Decades of success of Tesco has started to face challenges especially with the advent of the recession phenomena and still struggling to reverse the situation. In this regard Tesco followed a reactive strategy of price cuts, renovation of stores, training of human resources, advertising and Clicks & Bricks. However, the organization is still facing the challenge to reverse the situation while competitors like Sainsbury are performing well in the same environment. The reactive measures are planned to address the organizations intention of becoming competitive in all aspects like in both price and quality. This shows that the company does not have strategic priority in order to reverse the situation and its turnaround strategy is not working. Hence Tesco should learn from its rivals and other successful turn around strategies to be successful.

Compared to Sainsbury the reactive strategies of Tesco did not start from clear understanding of its customers. It failed to enquire the challenges of its HR rather training was considered as a solution. It tried to help its customers by cutting price in the bad time of recession, but customers are not only concerned about price rather there are some other social responsibility issues that should be addressed in their purchase decisions.

### 4. Ways forward

Based on the conclusions I have recommended the following to guide Tesco in order to undertake a successful turnaround and pursue its growth plan and reclaim its past glory. The first thing that the management of Tesco should admit is that it has a problem that needs to be addressed strategically. Because the organization is not in a position to sustain the competition from both premium and discount retailers and its decades of success secret is not working in the dynamic and very challenging environment. In other words "The economics of its business model no longer work in the current trading environment: its high margin strategy is unsustainable and will continue to negatively impact its market share" (retailthinktank, 2015, p. 1). Similarly, "protecting margin while the business is struggling to keep pace with a strong competitive set in a sluggish UK market" is questionable (Kantar, 2013). This implies that Tesco should change its high profit margin policy to regain its market share.

Then rather than making reactive measures with the objective of addressing all symptoms it should start by clear understanding of its customers. This is because the customers buying behavior is changing starting the recession and thereafter. The lifestyle and the demographics of the customers are changing. In this regard, Tesco should capitalize on the huge data base created through its relationship management programs to really understand why its customers are not retained and new customers are not attracted to the organization despite the different efforts of the turnaround strategy. On top of that, rather than perusing a points reward system like Clubcard which is also imitated by almost all major competitors it should connect with its customers individually and provide ranges and reward programs that can satisfy their specific requirements.

The other consideration is that Tesco should segment the market based on the type of customers that the organization is going to target. For example, "With a high proportion of workers on low incomes and a small concentration of very high earners, it is important for retailers to really understand who their audience is" (RBS, 2013, p. 4).

In other words, should it follow cost leadership, differentiation, or hybrid operational strategies? That is why the price cuts are not the response to address the challenges of the organization. Hence the company should think of investing in areas that can address the real needs of the customers as it has better position in profit margin compared to its customers. Hence if the organizations policy of serving everyone is going to sustain it should increase its product ranges and gear its HRM, operational and marketing strategies to address the specific requirements of the different customer segments. In other words, Tesco should re-engineer its business in such a way that enhance the shopping experience of its customers and making its competitive focus on customer service (skills, 2013).

According to Wood (2012) "Kantar Retail analyst Bryan Roberts said Tesco had been guilty of the kind of "complacency" that had enabled it to overtake former market leader Sainsbury's in the 1990s." Big Price Drop is

clearly not enough to win shoppers. Value is not just about price”.

Beyond cutting price in order to turnaround, which is also practiced by many turnaround strategists, the company should seriously think of what its core business should be and in order to sustain its future growth. This is a strategic decision that will direct the future direction of Tesco as the old way of doing business is proved inappropriate, given the fast and dynamic changes in the industry and its customers.

Beyond that the company should get enough support by all stakeholders through effective communication and participation. Most successful turnaround strategies indicate the importance of effective communication and support from stakeholders. On top of that the organization should appoint transformation managers both from internal and external that will have new ideas and thinking in order to implement the change initiative. Otherwise people with old ways of doing things may not be committed for the new ways of doing things and if the intended transformation is not internalized by major stakeholders it will have a negative impact on publicity and stock price of Tesco.

Finally whatever strategy are in place it is the people who are the implementers of the strategy. Accordingly, knowledgeable people who understand the retailing business from grassroots level should be part of the strategy formulation team. On top of that, beyond the increase in the number of people and training on customer services, concerted efforts should be made to effectively communicate the future business of the organization and develop strategic HRM for the effective implementation of the strategy of the organization.

Looking at the operational efficiency and experience Tesco is better positioned in the growing on line and convenience stores. However, the organization's major business component is in the hypermarkets that are dominated by non food retailing that are expected to have a low level of growth. Hence this put the organization to have a structural problem. Anticipating this future trend although Tesco decided to stop investing in large stores (which is a nice decision), Tesco should devise a strategy on how to repeat its success in the food retailing in the non food hypermarkets. Accordingly, it is recommended that effective multichannel strategy could address the structural challenge. In this regard “As retailers adapt their channels they must ensure their offering continues to remain relevant to the changing market too” (RBS, 2013, p. 4).

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Exhibit 1: Summary of Five year Performances of Tesco and Sainsbury

year	Sales	Revenue	Number of employees	Revenue per employee	Operating profit	Profit margin	Market share in UK	Sales per square foot in UK
<i>Tesco</i>								
2008	51773	47298	347737	0.13602	2791	5.9%	25.3	25.43
2009	59426	53898	364015	0.14807	3169	5.9%	25.8	25.34
2010	62537	56910	366413	0.15532	3457	6.1%	26.6	25.22
2011	67074	61174	382049	0.16012	3917	6.4%	30.5	24.95
2012	72035	65166	406088	0.16047	3985	6.1%	29.9	24.87
<i>Sainsbury</i>								
2008	19287	17837	96600	0.18465	530	3%	14.8	19.69
2009	20383	18911	97300	0.19436	673	3.6%	16	20.01
2010	21421	19964	97300	0.20518	710	3.6%	16.1	20.42
2011	22943	21102	99300	0.21251	851	4%	16.6	20.04
2012	24511	22294	109000	0.20456	874	3.9%	16.7	19.49

Source: Perepu (2013) and annual reports of TESCO and J-Sainsbury (2008-2012)